



September 30, 2008

Superintendent of Credit Unions  
Department of Government Services  
P.O. Box 8700  
St. John's NL A1B 4J6

Sent by Mail and Fax: 709-729-3205

Dear Mr. Morris:

**Subject: Proposed Amendment to Permit the Sale of Life Insurance Products at Credit Unions**

Independent Financial Brokers of Canada (IFB) appreciates the opportunity to provide input to this matter on behalf of our members.

To provide context to our remarks, IFB is a professional, not for profit Association which represents approximately 4,000 licensed financial advisors across Canada. The majority of our members provide advice and products to consumers related to life/health insurance and mutual funds. Many hold licenses in other financial services such as securities, property and casualty insurance, mortgages, etc.

The advisors we represent are self-employed, typically small business men and women who provide clients with access to financial products in their local communities. IFB is dedicated to supporting the continued viability of the independent channel of product distribution and advice. We believe, as do our members, that their independence – the ability to source products from a range of companies to meet a specific client's financial needs – is very effective in ensuring consumers receive the highest quality of advice and the most suitable financial product. As well, because they generally live and work in the same community as their clients, they are well-positioned to provide the long-term client support required to service such products. This is especially true for life insurance.

IFB supports its members by providing compliance related advice and practice tools and ensuring their viewpoint is articulated and presented to regulatory bodies and other industry stakeholders for their consideration. In addition, our members must abide by our Association's code of conduct.

With this context in mind, we offer the following comments for your consideration as you consider amendments to the *Credit Union Act* and Regulations. The specific

amendment of interest to us is the one which would permit credit union staff to sell life insurance products directly in the branches – a practice not permitted under *the Act* currently.

According to the consultation, credit unions have cited two main reasons for requesting these expanded business powers:

1. The sale of insurance “in branch” will allow them to provide a broader range of financial services to their members and reduce their operating costs by not having to maintain separate physical premises
2. It will increase competition and choice for consumers especially for those who reside in rural communities.

At the outset, we would like to point out that many of the arguments in favour of the retailing of insurance by both banks and credit unions concentrate only on the potential value to be added at the point of sale. This ignores the long-term nature of insurance generally, and life insurance in particular. It also ignores the important role client service plays over the life of an insurance policy. Our members live and work in the communities in which they operate their businesses. A consumer who purchases insurance through such independent brokers can rely on their broker to advocate on his or her behalf with the insurer and to represent their client’s interests in the event of a claim. In fact, a broker’s livelihood depends on providing such client service.

Staff of financial institutions may be more likely to change their job responsibilities, or have a variety of responsibilities. This reduces the likelihood that a consumer will receive the long-term support required over the life of the policy from the same sales intermediary. More troubling is the potential for a staff person to hold a variety of positions within the same branch leading to serious conflicts of interest. Consumers are best served by specialists - insurance advisors who are committed and knowledgeable in this area, and independent.

#### Credit Unions want to provide a broader range of financial services to members.

This argument assumes customers are most concerned about convenience when shopping for financial services. One stop shopping may make sense when these services involve a lending or investment relationship. However, the purchase of insurance, particularly life and disability insurance does not fall within these parameters and may even risk being compromised by the financial institutions’ ability to link a customer’s debt or credit situation to the purchase of insurance.

Credit unions have access to a great deal of personal and financial information by virtue of their banking arrangements, and even more so when a lending arrangement exists. The acquisition of insurance, especially life insurance, often involves the disclosure of detailed, sensitive health information. Such a situation presents an obvious danger to consumers where a lender’s access to health information could be used to adjudicate that client’s application for credit. IFB believes lending decisions should be based on financial criteria, not private health information.

Tied-selling, and in particular coercive tied-selling, remains a concern for us. While coercive tied-selling practices are prohibited, we continually receive anecdotal information from our members (which they get from their clients) that such tied-selling exists in the market.

IFB believes the only way to protect the consumer from coercive tied-selling, and the inevitable conflicts of interest that will arise between the lending and “investment” side of the financial services industry is to preserve the current ban. If, in spite of these concerns, the government is willing to consider permitting credit unions to sell insurance, it will need stronger regulations in place, specific to tied-selling, to control it.

Credit Unions can increase the accessibility of life insurance products and marketplace competition, especially for residents in rural communities.

This argument assumes that this is an under-serviced market – a premise IFB does not agree with. Many of our members operate small businesses within their local communities. They have established positions of trust with their clients and long-term relationships- often spanning the course of many years. They fill an important market niche in the financial services industry by providing easily accessible service to clients, often in the client’s own surroundings and outside of regular business hours. As an insurance retailer, the credit union would be competing with existing, community based businesses - such as those operated by our members.

IFB would caution the Department to be wary of accepting this as a reason to permit credit unions to sell insurance in their branches and would encourage it to undertake its own research to determine the validity of such claims.

**Other Observations**

The following comments identify some of the other potential risks we see inherent in the credit unions’ request to sell insurance directly from their branches.

Changes made now will create a fragmented legislative environment

Currently, federal and provincial legislation governing banks and credit unions related to the provision of insurance mirror one another. At both levels, these institutions are prohibited from engaging in the direct sale of insurance in their retail branches, other than those specifically authorized under their respective Acts. Legislation has established clear limits on the types of insurance related activities that are prohibited and those that are permissible. Neither Act prevents the banks or the credit unions from providing insurance from a separately owned entity – a provision which exists for the protection of consumers.

The viability of a separate life insurance distribution channel is threatened.

Permitting ‘in branch’ sales of insurance could put at risk the continuation of a separate life insurance distribution channel. Despite the fact that credit unions provide services only to their members, they are not an insignificant market force. Statistics published by the Credit Union Central show that at the end of the second quarter of 2008 credit unions in Newfoundland had over 46,000 members.

IFB does not believe that permitting credit unions to retail insurance would result in increased product accessibility for consumers to any greater degree than if credit unions and life insurance companies remained separate and competing entities. In fact, if credit unions offer proprietary products, consumer choice could be reduced.

Banking and insurance operate fundamentally different distribution models that have become a part of their corporate cultures. In this, credit unions are not significantly different from banks. The diversity of financial institutions is itself highly desirable, if not essential, and Canadians are better served if the deposit/credit function of a financial institution is kept separate.

Consumer protection could be reduced under this model.

IFB believes that the provision of insurance products directly through credit union branches could well result in a reduction in consumer protection, for the following reasons:

1. Customers risk being pressured by credit unions seeking to cross-sell their financial products.
2. Consumers are at risk for tied-selling.
3. Consumers risk the inappropriate use of their personal data.

We believe these are valid concerns which must be addressed before proceeding further. While we commend the Department for its proposal to require credit union staff, that would provide life insurance products in the branch, to be properly licensed, we are of the opinion that linking life insurance to credit presents a substantial risk to consumer protection, with no offsetting benefit other than to the financial institution.

In conclusion, Newfoundland/Labrador has an efficient and effective system of financial intermediation. Banking and insurance industries are functioning well, with robust competition both within and between them. As a result, it is essential that caution be exercised when considering making such a fundamental change to this system. Potential impacts must be identified and thoroughly analyzed in advance of implementing any such change.

Thank you for the opportunity to present our views. Should you have any questions or require further clarification please contact the undersigned.

Yours truly,



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